

# SHROPSHIRE COUNCIL AUDIT SERVICES

## FINAL INTERNAL AUDIT REPORT

### WEST MERCIA ENERGY

### CREDITORS 2014/15

<b>Assurance Level</b>	<b>Good</b>
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<b>Customer</b>	<b>West Mercia Energy</b>
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<b>Distribution</b>	<b>Nigel Evans - Director</b>
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<b>Auditors</b>	<b>Mark Seddon</b>
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<b>Fieldwork dates</b>	August 2014
<b>Debrief meeting</b>	1 <sup>st</sup> September 2014
<b>Draft report issued</b>	1 <sup>st</sup> September 2014
<b>Responses received</b>	1 <sup>st</sup> September 2014
<b>Final report issued</b>	2 <sup>nd</sup> September 2014

## **Introduction and Background**

1. As part of the approved internal audit plan for 2014/15 we have undertaken a review of Creditors.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards developed jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).
3. The Auditor would like to express his thanks to the officers who assisted during the course of the audit.

## **Scope of the Audit**

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.

Follow up of the previous recommendations and systems audit of creditor payment process, including a review of purchasing cards, using established documentation and testing.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
  - To ensure that previous recommendations have been implemented.
  - There are appropriate policies and procedures in place for the operation of the creditors system.
  - Orders are placed for all goods.
  - Goods received procedures are defined and operated effectively.
  - Prepayment checks are undertaken before an invoice is entered on the system.
  - Appropriate input controls are in place and operated effectively.
  - Credit notes are actioned in a timely manner.
  - Payments made are accurate, complete, have not previously been paid and are made at the optimal time.
  - BACS payments are securely controlled.
  - Transactions on purchasing cards are securely controlled and reviewed by an appropriate officer.
  - Management information in respect of payments to creditors is timely and adequate.
6. The audit was delivered on time and budget.

## **Audit Opinion**

7. An opinion is given on the effectiveness of the control environment which indicates the level of assurance that can be taken based upon our testing and evaluation of the system. This opinion will be reported to the Audit Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There

are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from audit work undertaken we are able to give the following assurance opinion:

<b>Good</b>	There is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed so that any material weaknesses in internal control have a reasonable chance of discovery through sample testing, it cannot guarantee or give absolute assurance against all material weaknesses, the overriding of management controls, collusion, instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report provided to management and the Action Plan attached at Appendix 1. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
3	0	0	3	0

10. Our review identified the following areas where appropriate management controls were in place and operating satisfactorily upon which positive assurance can be given:

✓	To ensure that previous recommendations have been implemented.
✓	There are appropriate policies and procedures in place for the operation of the creditors system.
✓	Orders are placed for all goods.
✓	Goods received procedures are defined and operated effectively.
✓	Prepayment checks are undertaken before an invoice is entered on the system.
✓	Appropriate input controls are in place and operated effectively.
✓	Credit notes are actioned in a timely manner.
✓	Payments made are accurate, complete, have not previously been paid and are made at the optimal time.
✓	BACS payments are securely controlled.
✓	Management information in respect of payments to creditors is timely and adequate.

11. We reviewed the previous recommendations made at the last audit which were accepted by management, the results of which are shown in the following table:

Number of recommendations accepted by management at the last audit	2
Recommendations implemented	2
Recommendations partially implemented	0
Recommendations superseded	0
Recommendations not actioned	0

Good progress has been made in the implementation of previous recommendations.

### **Audit Approach**

12. The approach adopted for this audit included:
  - Review and documentation of the system.
  - Identification of key controls.
  - Follow up of previous recommendations.
  - Tests of controls to confirm their existence and effectiveness.
  - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
  
13. Internal Audit report only by exception; the exception report provided to management identifies only those areas where control evaluation and audit testing revealed control weaknesses and or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at Appendix 1. A more detailed report covering all of the work undertaken can be provided on request, but this is only available in a working paper note format.
  
14. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address the identified control weaknesses.

Ceri Pilawski  
Audit Services Manager

**ACTION PLAN FOR CREDITORS 2014/15**

<b>Fundamental</b>		<b>Significant</b>		<b>Requires Attention</b>		<b>Best Practice</b>	
Immediate action required to address major control weakness that, if not addressed, could lead to material loss.		A recommendation to address a significant control weakness where the system may be working but errors may go undetected.		A recommendation aimed at improving the existing control environment.		Suggested action which aims to improve best value, quality or efficiency.	
<b>Rec Ref.</b>	<b>Rec No.</b>	<b>Recommendation</b>	<b>Rec Rating</b>	<b>Accepted Yes/No/Partially</b>	<b>Management Response</b>	<b>Lead Officer</b>	<b>Date to be Actioned</b>
10.1	1	The purchasing card agreements should be updated with the revised limits and the individual transaction limits. The updated agreements should be signed by the officers who have been issued with the purchasing cards.	Requires Attention	Yes	Agreements will be updated and reissued.	Nigel Evans	September 2014
10.2	2	Prior to a purchase using a procurement card where the value is to exceed the £250 limit as recorded in the Scheme of Delegation it should be ensured that authorisation of the purchase by the WME Director is evidenced.	Requires Attention	Yes	This will be reiterated to card holders.	Nigel Evans	September 2014
10.3	3	It should be ensured that a purchasing card transaction log is completed by the cardholder and authorised by the WME Director for all monthly transaction statements received.	Requires Attention	Yes	The Asst. Mgt Accountant is to ensure that the Director signs these logs off before filing away.	Martin Elson	September 2014